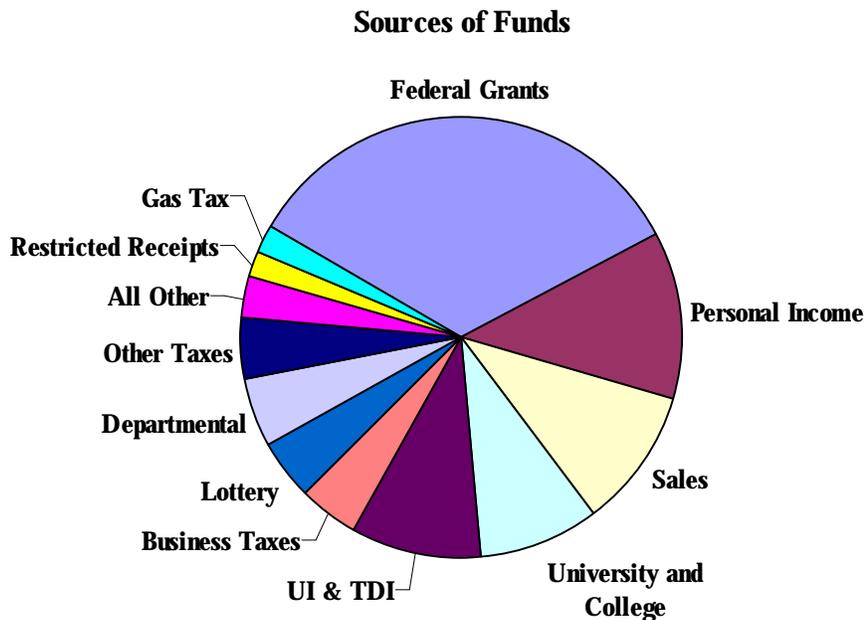


FY 2010 Enacted Budget at Glance

The Assembly adopted total expenditures of \$7,814.7 million, which is \$146.2 million more than the Governor recommended. It contains \$3,000.3 million from general revenues, which is \$78.7 million less than the Governor recommended. General revenue expenditures are \$0.8 million less than FY 2009 and \$404.9 million less than FY 2008.



Budget Structure

- Structural Issues.** The FY 2010 Budget includes an FY 2010 surplus of \$3.8 million, and has an operating surplus of \$2.6 million. The latter is revenues minus the transfer to the Budget Reserve Fund minus expenditures. It represents the gap between useable revenues and expenditures. The budget reserve and cash stabilization account, the “rainy day fund” would have an FY 2010 balance of \$81.5 million.

- Revenue-Expenditure Gap.** House Fiscal Staff estimates that in preparing the FY 2010 budget, the Governor faced a projected revenue-expenditure gap of \$486 million, which would grow to \$770 million by FY 2014. This was \$364.4 million more than Staff’s FY 2010 forecast in the enacted FY 2009 budget of \$121.6 million due mainly to significant downward revision in revenues at the November 2008 Revenue Estimating Conference and unachieved structural changes in FY 2009.

The Budget Office indicates it estimated the gap to be \$504.3 million; however, that includes \$43.0 million that was due in FY 2009 that the Governor recommended deferring to FY 2010. Absent that deferral, the Budget Office estimate would be \$461.3 million. That deferral would not generally be included as part of the estimated gap, nor would the impact of the new federal stimulus funding, which significantly lessened the gap to be filled to less than \$300 million.

The Governor resolved that gap largely with \$231.4 million from stimulus funding, \$64.3 million from pension changes, \$59.6 million from local aid reductions and \$42.7 million less debt service expenses.

The Revenue Estimating Conference concluded May 11 and revised the FY 2010 forecast to \$2,915.0 million, which is \$129.6 million less than November after adjusting for the changes in 2009-H 5019 Substitute A, as amended, and \$130.1 million less than the Governor's budget revised for his changes included in the estimate.

The Assembly's FY 2010 budget resolved the new \$130.1 million gap with \$67.9 million in statewide reductions to personnel and operating costs; \$45.8 million from tax law changes; \$21.0 million from a lower repayment to the rainy day fund because of action taken in FY 2009; \$10.3 million of reductions in education programs including teachers' professional development and expanded programs proposed by the Governor; additional use of stimulus funds as well as numerous other adjustments to state programs and services.

Federal Stimulus

- ***American Recovery and Reinvestment Act of 2009.*** On February 17, President Obama signed the American Recovery and Reinvestment Act of 2009. Generally referred to as the Stimulus Act, it provides \$789 billion of federal spending designed to prevent further deterioration in the national economy, provide relief to states and individuals, and create new jobs. The FY 2010 budget assumes use of \$633.5 million from these funds with approximately \$189.3 million used for direct state budget relief. Tax law changes result in \$0.2 million less revenues, partially offsetting this relief.
- ***State Fiscal Stabilization.*** The state has received a preliminary waiver from the requirement that the state maintain support for both elementary and secondary education and public higher education at no less than the FY 2006 level for fiscal years 2009, 2010 and 2011 in order to be eligible for stabilization funds. The FY 2010 budget uses \$63.3 million of the total \$164.9 million available over that three-year period. This includes \$37.2 million for elementary and secondary education, \$16.1 million for fire safety projects at the institutions of public higher education and \$10.0 million for public safety expenses. The final FY 2009 budget uses \$58.3 million including \$38.3 million for local education aid and \$20.0 million for public safety expenses.
- ***Medicaid Reimbursement.*** The Budget includes \$320.8 million from federal funds over a two year period from the enhanced Medicaid reimbursement rate for direct general revenue budget relief, including \$131.5 million for FY 2009 and \$189.3 million for FY 2010. States must maintain their Medicaid eligibility standards, methodologies, and procedures in effect as of July 1, 2008.
- ***Nutrition Programs.*** The Budget includes an additional \$35.9 million for the supplemental nutrition assistance program, formerly known as food stamps. Stimulus funding for elderly meal services totals \$0.5 million.
- ***Unemployment and Reemployment.*** The Budget includes \$177.0 million from stimulus funds for direct benefits to the unemployed as well as funding to support administrative costs and worker training.
- ***Education Aid to Locals.*** The Budget includes \$74.0 million from stimulus funds for direct relief to local schools including \$17.0 million through the Title I program, \$19.8 million for special education

through the Individuals with Disabilities Education Act program and \$37.2 million from fiscal stabilization funds.

- ***Education Programs.*** The Budget includes \$10.2 million from other education related federal stimulus funds for competitive grants to local schools and use by the Department of Elementary and Secondary Education for technology and other school improvement programs.
- ***Weatherization.*** The Budget includes \$6.8 million from stimulus funds to expand the home weatherization program through increased eligibility and grant awards. The state contracts with community action agencies to provide low-income individuals, particularly the elderly and disabled, and households with high energy burdens, with weatherization improvements to lower utility costs.
- ***Housing and Community Development.*** The Budget includes \$3.4 million in stimulus funds for community development block grants and homelessness prevention. It does not show the funding that will be provided directly to local housing authorities.
- ***Public Safety.*** The Budget excludes \$3.8 million of funding for state justice program grants from the Stimulus Act for which there has not been sufficient review of the proposed uses.
- ***Transportation.*** The Budget includes \$97.4 million in stimulus funds for transportation projects of which \$97.1 million will be used for highway, road and bridge projects, and \$0.3 million will be used for fixed guideway infrastructure improvements.

Taxes and Revenues

- ***Personal Income Tax.*** The Governor proposed legislation to make significant changes to the personal income tax structure beginning in tax year 2011. Those changes include: eliminating the flat tax option and the alternative minimum tax; taxing all capital gains as ordinary income; moving the start point from federal taxable income to federal adjusted gross income; eliminating itemized deductions and substituting higher standard deductions; and changing from five brackets to four. The Assembly included the change to the capital gains tax but retained current law on the remainder of the proposal.
- ***Capital Gains Tax as Ordinary Income.*** The Assembly enacted legislation to tax capital gains as ordinary income regardless of how long an asset has been held before taxed and includes \$23.6 million in revenues. Prior to passage of the legislation, Rhode Island taxed capital gains income based on the length of time the seller had owned the asset. If an asset was held for five years or more, then the capital gains income from that asset was taxed at a 0.83 percent, 1.67 percent, 2.08 percent or 2.33 percent rate contingent on the taxpayer's income and type of asset sold.
- ***Cigarette Tax.*** The Budget assumes \$30.2 million in additional revenue from increasing the cigarette tax by \$1.00 per pack to \$3.46, effective April 10, 2009, consistent with passage of 2009-H 5019, Substitute A, as amended. It retains the minimum markup provisions in current law. The Department of Revenue estimates that cigarettes would still cost slightly less per pack than Massachusetts.
- ***Business Corporation Tax Phase Out.*** The Governor's budget includes a revenue loss of \$14.5 million in FY 2010 from the reduction of the Business Corporation Tax from 9.0 percent to 7.5 percent, effective January 1, 2010. The Governor recommended full phase out by 2014 and

replacement with a minimum tax based on income. The Assembly did not concur with the Governor's proposal and restored the \$14.5 million in revenues for FY 2010.

- ***Health Insurance Gross Premiums.*** The Budget includes increasing the gross premiums tax for nonprofit hospital service corporations, health management organizations, and nonprofit dental corporations from 1.75 percent to 2.0 percent making all insurers taxed at the same rate effective January 1, 2009, for a general revenue increase of \$3.8 million. It also includes additional revenue of \$9.8 million from applying the 2.0 percent tax to Medicaid managed care providers, which were previously exempt.
- ***Health Care Provider Tax.*** The Budget includes \$12.7 million less revenues for FY 2010, of which \$11.1 million is from the elimination of the group home tax pursuant to changes included in the Global Waiver. The Budget also includes a series of expenditure reductions to nursing homes that will lower their revenues by \$26.7 million and result in \$1.6 million less in taxes, which are 5.5 percent of nursing home gross revenues.
- ***Hospital License Fee.*** The Budget includes an FY 2009 licensing fee set at 5.473 percent of hospitals' net patient services revenue for the hospital fiscal year ending on or after January 1, 2007 and includes \$111.4 million in revenue, \$106.2 million from the community hospitals and \$5.3 million from Eleanor Slater Hospital. It also includes an FY 2010 licensing fee at 5.237 percent of revenues for the hospital fiscal year ending on or after January 1, 2008 and assumes revenue of \$128.8 million, \$123.1 million from the community hospitals and \$5.8 million from Eleanor Slater Hospital.
- ***Estate Tax Exemption.*** The Governor proposed increasing the Rhode Island estate tax exemption amount from \$675,000 to \$1.0 million for any resident or non-resident who dies on or after January 1, 2010 and assumes a revenue loss of \$1.5 million for FY 2010. The Assembly increased the exemption amount to \$850,000, and beginning on January 1, 2011 and thereafter, the exemption amount will be adjusted by the Consumer Price Index. This reduced the recommended revenue loss to \$0.8 million.
- ***Sales Tax Retailer.*** The Assembly enacted legislation to change the definition of a retailer to add companies that contract with Rhode Island companies, sell over the Internet and whose receipts are in excess of \$5,000. The Budget does not assume any revenue from this change; however, it will help to enforce collection of taxes that are due to the state.
- ***Gas Tax Increase.*** The Budget includes a two cent increase in the motor fuel tax for a total of 32 cents per gallon. The additional funding will be allocated to the Rhode Island Public Transit Authority, which increases the Authority's share of the motor fuel tax to \$0.0925.
- ***Gas Tax.*** The Budget retains one cent of the 32 cent per gallon motor fuel tax previously designated for the General Fund within the Intermodal Surface Transportation Fund. The Department of Transportation's FY 2010 budget will increase by \$4,400,000 and general revenues will decrease by the same amount.
- ***Earned Income Tax Credit Increase.*** The American Recovery and Reinvestment Act of FY 2009 increases benefits from 40.0 percent to 45.0 percent of the first \$12,570 in earned income for families with three or more children for tax years 2009 and 2010. The credit begins to phase out at a rate of 15.98 percent of earnings above \$16,420 for individuals and \$21,420 for those married and filing jointly. Since Rhode Island's credit is 25.0 percent of the federal amount, the total estimated revenue loss would be \$175,306 for FY 2010. The Budget includes this revenue loss.

- ***Cancellation of Debt Income.*** The American Recovery and Reinvestment Act of 2009 allows businesses that repurchase their debt in 2009 and 2010 to defer reporting the cancellation of debt income as taxable income until 2014 and then spreads the income repayment from 2014 through 2018. The Assembly amended the tax statutes to disallow the spread of income from cancellation of debt income. Currently, the cancellation of debt income is taxed in the same year that it is earned. The Center on Budget and Policy Priorities estimated that the revenue loss for the state, absent this change, would be \$21.0 million, including \$4.0 million for FY 2010. Several states including Florida, Maryland and Minnesota have already decoupled from the federal corporation income tax statutes.
- ***Unemployment Insurance Benefits.*** The Governor's recommended budget assumed a loss of \$5.4 million from the suspension of income tax obligations on the first \$2,400 in unemployment benefits. The Assembly passed legislation in the supplemental budget to disallow the deduction.
- ***Land Sales.*** The Budget does not include revenues from land sales. The Governor included \$10.0 million in revenues from the sale of two parcels of state-owned land to the Rhode Island Housing and Mortgage Finance Corporation. This includes \$6.0 million in revenues from the sale of the Aime Forand property and \$4.0 million for the land between Pontiac and Howard Avenues, formerly slated for the new State Police headquarters. He had also proposed \$6.0 million in revenues for FY 2009 from a proposal that included a new parking facility on land near the current Garrahy Courthouse.
- ***Sales Tax Paid on New Vehicle Purchase.*** The Governor's budget reflects the estimated state income tax loss of \$1.4 million from the Stimulus Act's provision for an itemized deduction of the sales taxes paid on new vehicles. It only applies to vehicles purchased between February 17, 2009 and December 31, 2009 that are under 8,500 pounds and valued up to \$49,500. The deduction is subject to a phase out for individuals with modified adjusted gross income between \$125,000 and \$135,000 and \$250,000 and \$260,000 for those married and filing jointly. The Budget adopted in 2009-H 5019, Substitute A, as amended, included legislation that amended the personal income tax statutes to disallow the deduction, preventing the revenue loss.
- ***Rhode Island Health and Educational Building Corporation Transfer.*** The Budget includes a transfer of \$1.0 million from the Rhode Island Health and Educational Building Corporation to the general fund in FY 2010.
- ***Motor Vehicle Fees.*** The Budget includes \$7.8 million in revenues for FY 2010 based on passage of Article 10 of 2009-H 5019, Substitute A, as amended, to double the title fee from \$25 to \$50, including transfers and increase the fee for restoration of revoked title or registration from \$50 to \$250; increase the fee for restoration of a revoked or suspended license from \$75 to \$150; and increase the fee for the restoration of revoked or suspended license for individuals driving under the influence of alcohol from \$75 to \$350.
- ***Expungement Fee.*** The Budget includes additional revenues of \$1.2 million from charging \$100 for court orders granting record expungements. The Office of the Attorney General's Bureau of Criminal Identification processes approximately 12,300 expungements annually at no cost.
- ***Business Regulation Fees.*** The Budget includes an additional \$1.6 million from increasing selected fees charged to individuals and entities, regulated through the Department of Business Regulation, by 20 percent, effective July 1, 2009. The 31 selected fees have not been increased since FY 2000 or earlier. These fees affect insurance professionals, design professionals, those in the upholstery and bedding industry, banking and securities entities, and the registration for fundraisers and charities.

- ***National Council on Aging Grant.*** The Budget includes \$124,802 in revenues to reflect new funds provided by the National Council on Aging to expand and sustain a chronic disease self-management program statewide with adults 60 years old and older in diverse and at risk populations.
- ***Background Checks.*** The Budget does not include the Governor's proposal to increase the fee for the Bureau of Criminal Identification background checks from \$5 to \$25. It maintains the current fee of \$5 per background check and excludes anticipated additional revenues of \$0.9 million.
- ***Food Licenses Late Renewal Penalty.*** The Budget does not include \$25,000 in new revenues from imposing a penalty fee of \$100 for late renewals of permits granted for food protection licenses and a civil penalty fee of \$500 per day for each day that an establishment operates with a lapsed or invalid permit.
- ***Purchase Card Rebates.*** Under its purchasing card agreement, the state annually receives a rebate based on the volume of purchases. The FY 2010 budget includes \$50,000 from the annual rebate; the FY 2009 revised budget includes \$250,000 from the funds that have been accruing in an escrow account for several years.
- ***Video Lottery 24-3.*** The Assembly included revenues of \$10.7 million from video lottery terminal proceeds for expanded hours seven days per week, referred to as 24-3. The 2008 Assembly had approved 24-3 operations for the period May 2008 through June 30, 2009 for Twin River and Newport Grand. The Administration announced it would administratively expand to 24-7.
- ***Human Resource Investment Council.*** The Budget includes transferring \$1.5 million from the Human Resource Investment Council to the general fund. The Council has an estimated FY 2009 year-end balance of \$1.8 million. Employer payroll taxes fund two restricted receipt accounts, which the Council uses for employment, training, education and economic development activities.
- ***Coastal Resources Management Council Fees.*** The Budget includes additional revenue of \$0.2 million from increasing certain fees through the Coastal Resources Management Council. This includes increasing the structural shoreline protection application fee from \$750 to \$1,500 for the first 100 feet and from \$10 to \$15 for each additional foot. It also includes increasing the fee for recreational vehicle permits from \$50 to \$100 for residents and from \$100 to \$200 for non residents, allowing for vehicle access to the beaches. There is also an increase to the residential dock application fee from \$500 to \$1,500 which allows a homeowner to build a dock on their property.
- ***Corporate Statistics of Income.*** The Assembly enacted legislation that requires that the Division of Taxation prepare and submit statistics of corporate income tax data modeled after the federal report.

Pension Changes

- ***State Employees.*** The Assembly adopted pension changes, which apply to state employees not eligible to retire as of October 1, 2009 and newly hired judges. The Budget assumes \$21.5 million in total savings for FY 2010. The changes include a minimum retirement age of 62 with a proportional application of that minimum age to current members based on their current service as of October 1, 2009. This means that those closest to retirement eligibility would have the smallest change in their current minimum retirement age. Similar adjustments are included for correctional officers and nurses employed by the Department of Mental Health, Retardation and Hospitals.

Changes also include freezing service credits for those in Plan A and shifting all future accruals to Plan B. Members in both plans would retain the respective 80.0 and 75.0 percent caps on their accruals. The cost-of-living adjustment would all be based on the Plan B model of the lesser of inflation or 3.0 percent on the third anniversary. Finally, the salary basis for benefits would be changed to the five consecutive highest years, from the current three.

- **Teachers.** The Assembly adopted pension changes, which apply to teachers not eligible to retire as of October 1, 2009. The changes include a minimum retirement age of 62 with a proportional application of that minimum age to current members based on their current service as of October 1, 2009. This means that those closest to retirement eligibility would have the smallest change in their current minimum retirement age.

Changes also include freezing service credits for those in Plan A, shifting all future accrual to Plan B. Members in both plans would retain the respective 80.0 and 75.0 percent caps on their accruals. The cost-of-living adjustment would all be based on the Plan B model of the lesser of inflation or 3.0 percent on the third anniversary. Finally, the salary basis for benefits would be changed to the five consecutive highest years, from the current three.

Total savings from general revenues are \$37.2 million; this includes both the state's share and local share of savings all accruing to the state.

- **Judicial Retirement.** The Budget lowers pension benefits for all judges hired after July 1, 2009. These include changing the salary basis for benefits to the five consecutive highest years, from the current three. The maximum benefit accrual is reduced to 80.0 percent for full retirement from the current 90.0 percent and to 65.0 percent for a reduced retirement from the current 70.0 percent.
- **Accidental Disability Retirement.** The Budget includes changes to accidental disability pensions sought after October 1, 2009 such that retirees will only receive the 66 2/3 percent benefit if the Retirement Board finds them to be totally and permanently disabled from further employment. Those who are still able to work other jobs would only receive a 50.0 percent benefit.
- **Service Credit Purchases.** The pension legislation requires that all service credit purchases, except military time, be at full actuarial value, effective June 16, 2009.

Local Aid

- **General Revenue Sharing.** The Budget does not include funding for the General Revenue Sharing program for FY 2010, consistent with the Governor's recommendation.
- **Payment in Lieu of Taxes.** The Budget includes \$27.6 million to level fund the Payment in Lieu of Taxes program at the FY 2009 revised level.
- **Motor Vehicle Excise Tax.** The Budget includes \$135.3 million to fund the Motor Vehicle Excise Tax program. This assumes no growth in values from FY 2009 for which growth was 0.1 percent above FY 2008.
- **Distressed Communities Relief Fund.** The Budget includes \$10.4 million from general revenues to fund the Distressed Communities Relief Fund for FY 2010, consistent with the enacted budget.

- ***Library Aid.*** The Budget includes \$8.8 million to level fund state support of public libraries in FY 2010. Rhode Island General Law 29-6-2 requires the state to provide financial support to public libraries equal to 25.0 percent of the second prior fiscal year's local expenditures for library services. The 2008 Assembly passed legislation to reduce the maintenance of effort requirement for municipalities to provide library services to at least 80.0 percent of the previous year for just FY 2009. The Budget continues to allow communities to meet the 80.0 percent maintenance of effort for libraries to qualify for state library aid for FY 2010.
- ***Library Construction Aid.*** The Budget includes \$2.8 million for library construction aid to reflect current law requirements for FY 2010 based on updated cost information and construction schedules for approved projects. The state reimburses libraries up to one-half the total cost for eligible projects on an installment basis for a period of up to 20 years.
- ***Property Valuation Reimbursements.*** The Budget includes \$1.8 million to reimburse communities conducting scheduled property revaluations or statistical updates.
- ***Municipal Realignment Commissions.*** As part of his revised budget, the Governor proposed legislation to create two new commissions: the school realignment and the municipal public safety and public works realignment commissions. The commissions would review and make recommendations for creating efficiencies in the cost and delivery of local services. The Assembly did not enact this legislation and removed the \$150,000 each in the Department of Revenue and Department of Elementary and Secondary Education.
- ***Municipal Tipping Fee.*** The Budget establishes the municipal tipping fee at \$32.00 per ton in FY 2010 for municipalities that recycle less than 24 percent of their solid waste. Municipalities that recycle between 24 and 29 percent would pay \$31.00 per ton, those recycling between 29 and 35 percent would pay \$30.00 per ton and municipalities recycling 35 percent of their solid waste would pay \$29.00 per ton.
- ***Local Election Expenses.*** The Budget retains \$55,000 of funding for the preparation costs for all voting documents when only a local election is involved or a special election regarding only a local question or candidate is conducted. The Governor had proposed legislation to require that municipalities pay this cost.

Education Aid

- ***Stabilization Funds.*** The FY 2010 Budget includes use of \$75.5 million of the total \$164.9 million available for FY 2009 through FY 2011. The Secretary of Education has granted the state a preliminary waiver for the maintenance of effort requirement that the state maintain support for both elementary and secondary education and public higher education at no less than the FY 2006 level for fiscal years 2009, 2010 and 2011.

The Budget provides \$34.1 million from federal stabilization funds for FY 2010 to be distributed to school districts in the same proportion as state education aid and reduces general revenues by a similar amount. Including charter schools, the Metropolitan Career and Technical School and the state schools, the total amount from stabilization funds for elementary and secondary education for FY 2010 is \$37.2 million. The Budget also provides \$16.1 million for fire safety projects at the institutions of public higher education and \$10.0 million for use by the Department of Public Safety.

- ***Title I.*** The Budget includes \$17.0 million of additional Title I stimulus funding allocated to school districts including charter schools and the state schools. This represents 50.0 percent of available Title I stimulus funding with the remaining budgeted in the FY 2009 revised budget. Distribution formulae for these grants are weighted so that local education agencies with higher percentages of poor children receive more funds.
- ***Special Education.*** The Budget includes \$19.8 million of additional federal special education stimulus funding for the education of children with disabilities for school districts including charter schools and the state schools. This represents 50.0 percent of available stimulus funding with the remaining budgeted in the FY 2009 revised budget.
- ***Central Falls.*** The Budget includes an additional \$0.9 million or 3.0 percent, adjusted for pension savings to support the Central Falls School District for FY 2010.
- ***Metropolitan Career and Technical School.*** The Budget includes an additional \$1.2 million for the operation of the Metropolitan Career and Technical School to fund full enrollment at the school's Providence campuses and 90 students at the new East Bay Campus.
- ***Mayoral Academies and Charter School Expansions.*** The Budget includes \$1.5 million from general revenues to allow for new charter schools, including mayoral academies to open for FY 2010.
- ***Charter School Employment Mandates.*** The Budget maintains charter school employment mandates consistent with current law. The Governor had proposed legislation to exempt charter schools chartered or subject to renewal after July 1, 2009 from prevailing wages and benefits, participating in the state's teacher retirement system, and classifying their employees as public employees. This would make charter schools similar to the current exemptions for mayoral academies adopted by the 2008 Assembly.
- ***School Housing Aid.*** The Budget includes \$61.5 million to fund projected costs of school housing aid to local districts for FY 2010, which is \$7.4 million more than the FY 2009 entitlement and \$2.2 million less than the Governor recommended based on revised spending projections. The Department has indicated that the Nathan Bishop Middle School project in Providence will not be complete by June 30, 2009 in order to be eligible for housing aid for FY 2010. Aid is based on wealth with a 30.0 percent minimum reimbursement of approved costs.
- ***School Breakfast Program.*** The Assembly provided the enacted level of \$300,000 to reimburse administrative costs associated with the state's school breakfast program. Food is paid from federal sources.
- ***Education Telecommunications Fund.*** The Budget includes \$350,000 from general revenues to fund the education telecommunications fund because of declining collections. This fund is designed to provide assistance to qualified libraries and schools to acquire, install and use telecommunications technologies to access the Internet and is supported by a \$0.26 surcharge on landline phones. There is no general revenue support for this program in the enacted budget.
- ***Group Home Aid.*** The Budget reflects group home aid consistent with current law that requires that aid be paid for all beds opened as of December 31, 2008. The FY 2010 budget is \$75,000 less than the FY 2009 enacted budget.

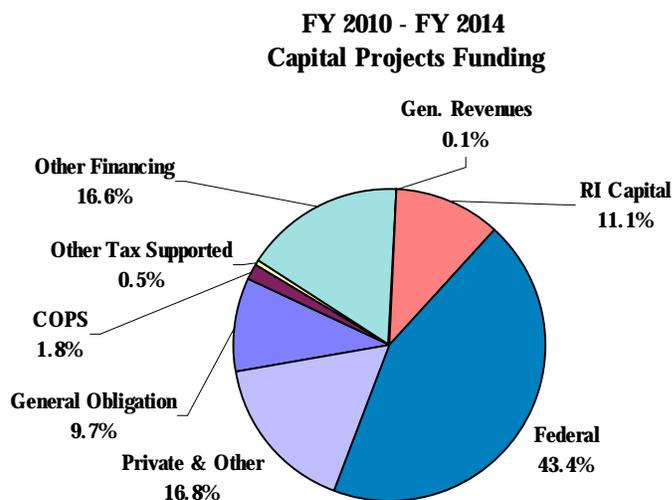
- **Professional Development.** The Budget eliminates the portion of professional development funds distributed to local school districts as education aid for savings of \$5.8 million. Funding is distributed to districts and used for continued skill development for Rhode Island’s teachers and staff and was also eliminated as part of the FY 2009 revised budget.

The Budget also eliminates the \$495,000 appropriation made to support teacher professional development in all districts through a number of programs administered through the Department including the Physics First program and mathematics and science professional development activities.

- **Providence Education/Housing Aid 7 Year Repay.** The Governor had proposed in his FY 2009 revised budget to reduce Providence’s education aid by the \$9.5 million of overpaid school construction aid it received on expenditures not eligible for reimbursement. This was contrary to prior practice in which the communities repaid their overpayments over a number of years. The 2009 Assembly amended the statutes in 2009-H 5019, Substitute A, as amended, to mandate that payback formula for all communities where the situation arises and reduced aid to Providence by \$1.4 million for the first year of a seven year payback. The Budget includes another \$1.4 million reduction for FY 2010 for the second year of payback.

- **School Realignment Commission.** As part of his revised budget, the Governor proposed legislation to create two new commissions: the school realignment and the municipal public safety and public works realignment commissions. The commissions would review and make recommendations for creating efficiencies in the cost and delivery of local services. The Assembly did not enact this legislation and removed the \$150,000 each in the Department of Revenue and Department of Elementary and Secondary Education.

Capital Budget

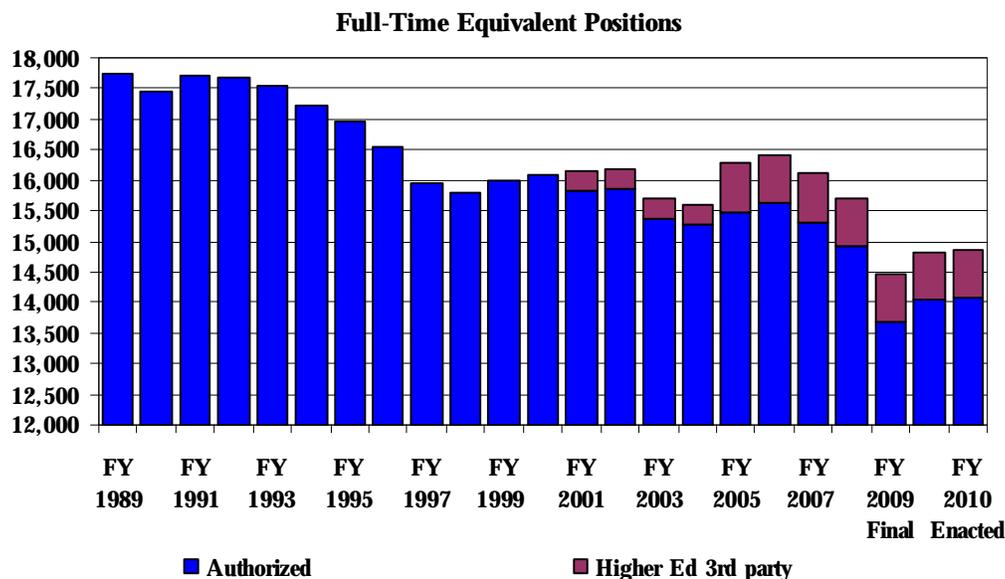


- **Outlays and Funding.** The FY 2010 through FY 2014 adopted plan includes \$3,854.1 million of outlays on \$8,363.9 million of project estimates. Average outlays would be \$770.8 million per year for the five-year period with \$315.2 million required at the end of the period to complete the projects.

- **Financing.** Paying for the five-year outlays includes \$1,100.2 million from debt financing and \$2,753.9 million from current, or pay-go, sources. Pay-go represents 71.5 percent with debt funding being 28.5 percent.
- **General Obligation Bonds Referenda.** Financing the plan is based on \$372.5 million of general obligation bond debt issuances, including \$87.3 million from new general obligation bond referenda to be presented to the voters in November 2010 and \$117.2 million in November 2012.
- **Other Debt Approvals.** The 2009 Assembly authorized \$77.4 million under the Public Debt Management Act, including \$50.0 million from Rhode Island Bridge and Turnpike Authority revenue bonds supported by undetermined toll increases and \$27.4 million for University projects financed through the Rhode Island Health and Educational Building Corporation. It also includes the authority to indemnify AMTRAK for use of its track from Providence to Wickford Junction.
- **Debt Levels.** Total net tax supported debt increases by \$67.5 million over the \$1,651.3 million reported for the end of FY 2008 during the period through FY 2014 to \$1,718.8 million. However, past practice indicates that debt levels will be significantly higher as more projects are added within the five-year period of this capital budget.

State Government General

- **Staffing.** The Budget includes 14,858.0 full-time equivalent positions, including 785.0 higher education positions dedicated for research or supported by other third-party funds. This is 29.1 more positions than the Governor's FY 2010 recommendation including 40.0 positions within the Department of Labor and Training for the administration of unemployment insurance benefits offset by other adjustments including proposed new positions for the Departments of Health and Public Safety. The Budget also includes statewide personnel savings, which reduces the number of funded positions and will require maintaining many current vacancies.



- **Across-the-Board Savings.** The Budget includes general revenue savings of \$67.9 million from statewide reductions to personnel and operating expenses. Savings are generated from a 5.0 percent

reduction to both salaries and benefits and operating expenses for one full year and an additional 2.5 percent for the second half of the year, which total \$57.7 million. The total includes \$5.1 million from a 10.0 percent reduction to consulting services and \$5.1 million from lower benefit rates to reflect updated trends. Similar benefit adjustments are included in FY 2009.

- ***Unemployment Insurance Benefits.*** The Budget includes a total of \$651.9 million for the payment of unemployment insurance benefits in FY 2010. This includes \$162.7 million from federal stimulus funds and \$489.2 million from the Employment Security Fund, which is an increase of \$258.5 million over the enacted level of \$230.7 million because of the state's continued high unemployment rate and the extended duration of unemployment insurance benefit eligibility.
- ***Historic Tax Credit Trust Fund Debt Service.*** The Budget includes \$22.5 million from general revenues for the issuance of \$200.0 million to fund debt service for historic tax credits. This is \$27.5 million less than the \$50.0 million annual need in the current service estimate, but the higher level would likely be needed in FY 2011 and beyond.
- ***Registry of Motor Vehicles Branches.*** The Budget includes funding for operational costs to maintain registry offices in the Towns of Warren and Westerly. The Governor's budget assumed closure of both offices.
- ***Registry of Motor Vehicles Building.*** The capital plan includes \$17.9 million from Rhode Island Capital Plan funds, including \$11.4 million in FY 2010 to renovate the Forand building to be the new home of the Registry of Motor Vehicles. The Registry is currently in leased space, and the FY 2010 budget includes \$1.0 million for its lease costs.
- ***Contractors' Registration Board.*** The Budget retains the Contractors' Registration and Licensing Board in the Department of Administration. The Governor proposed transferring it to the Department of Business Regulation.
- ***Local Government Assistance Program.*** The Budget reflects the transfer of the Local Government Assistance Program from the Department of Administration to the Department of Revenue.
- ***Rhode Island Financial Accounting Network System.*** The Budget delays \$1.9 million in general revenue expenditures for continued expansion of the statewide financial system, Rhode Island Financial Accounting Network System.
- ***State Labs Consolidation.*** The Budget consolidates the University of Rhode Island Crime Lab and the Department of Health Forensic Science Unit, into the Department of Health. The consolidation includes the current Department of Health staffing of 12.6 positions and \$1.6 million associated funding as well as a shift of \$675,000 from general revenues from the Office of the Attorney General to the Department of Health.
- ***Worksite Wellness.*** The Assembly eliminated the Worksite Wellness program for general revenue savings of \$285,930. The Worksite Wellness program was created by Executive Order 05-12 to address the overall health and fitness of the state's citizens, including state employees.
- ***Contingency Fund.*** The Budget includes \$250,000 in the contingency account within the Office of the Governor. The funds may be used for expenditures in any state department or agency where funding is insufficient, or where such requirements are due to unforeseen conditions or are non-recurring items of an unusual nature.

- ***Convention Center Authority.*** The Budget includes an additional \$1.2 million for the Convention Center Authority to cover debt service requirements and operational shortfalls at the Dunkin Donuts Center, Convention Center and the Veterans' Memorial Auditorium. The FY 2009 enacted budget already includes \$23.1 million.
- ***Slater Fund.*** The Budget includes \$2.0 million, or \$1.0 million less for the Slater Technology Fund, which is a state-backed venture capital fund investing in emerging technology. The Slater Centers of Excellence was created in 1997. Actual expenditures to date total \$37.2 million.
- ***Station Fire.*** The Budget includes \$10.0 million from general revenues to pay for the state's share of the station fire civil suit settlement in FY 2010.
- ***Economic Development Corporation Operating Grant.*** The Assembly provided general revenue expenditures of \$4.7 million for the Economic Development Corporation. This reflects a reduction of 11.3 percent. Funding is passed through the Department of Administration's budget and is used for the Corporation's general operating budget.
- ***Federal Help America Vote Act Funds.*** The Budget includes \$0.8 million from federal Help America Vote Act funds in FY 2010, allowing for a like amount of general revenue savings for expenses related to regular and special elections shifted to these newly available federal funds. The Governor's budget assumed the funds would be depleted in FY 2009.

Housing and Energy

- ***Housing and Community Development.*** The Budget includes \$3.4 million from the American Recovery and Reinvestment Act for various housing programs, including the Community Development Block Grant, which provides for annual grants on a formula basis to eligible municipalities to develop viable urban communities. The Budget also includes additional funding from the Act for the Neighborhood Stabilization Program to assist in the redevelopment of abandoned property and foreclosed homes.
- ***Neighborhood Opportunities Program.*** The Budget includes \$2.5 million from Rhode Island Capital Plan funds for the continuation of the Neighborhood Opportunities Program, which provides grants or low interest loans for the rehabilitation of dilapidated housing units or new construction as well as operating subsidies to reduce rents.
- ***Energy Program.*** The Governor's budget includes \$22.1 million from the federal Stimulus Act for various energy programs including the State Energy Program, Weatherization Assistance, Energy Efficiency and Conservation Block Grant and Low Income Energy Efficiency Appliance Rebate. The Assembly excluded the funds from the budget since plans for the use of the funds have not been provided.

Elderly

- ***Pharmaceutical Assistance to the Elderly.*** The Budget does not include the Governor's proposal to eliminate the Rhode Island Pharmaceutical Assistance to the Elderly program effective January 1, 2010, which will end coverage the state provides for individuals between the ages of 55 and 64 who are not

eligible for Medicare. Medicare recipients will continue to receive drug coverage through the federal Part D drug program, but they will no longer have state coverage for gaps in Part D benefits.

- ***Adult Day Care Services.*** The Budget includes \$1.7 million, including \$0.9 million from general revenues for the adult day care program. It does not assume the Governor's budget proposal to increase the co-payment for clients receiving subsidized adult day care by either \$4.00 or \$6.50 per day for a total daily cost of \$11.00 or \$18.00, depending on clients' income.
- ***Home and Community Care Programs.*** The Budget includes \$4.0 million from all sources, \$1.9 million from general revenues for home and community care programs in FY 2010. This includes \$1.7 million for the adult day programs and \$3.3 million for the home care program. The Budget also includes \$3.7 million for FY 2009, \$0.3 million less than enacted in 2009-H 5019 Substitute A, as amended, based on lower utilization than expected during FY 2009.
- ***Paratransit Services for Elderly.*** The Budget transfers the responsibility for paratransit services from the Department of Elderly Affairs to the Department of Human Services and includes \$7.7 million, \$2.0 million from general revenues for the activity. The Governor requested an amendment to shift only the Medicaid eligible portion of the program from Elderly Affairs to Human Services.
- ***Sullivan/Perry Long Term Care Financing.*** The Assembly included legislation that provides that any savings from the reduction in nursing home days in the Department of Human Services' budget will also be spread to the current service estimate for community based long term care services for elderly 65 years of age and older in the Department of Elderly Affairs.

Health and Human Services

- ***Office of Health and Human Services Organization.*** The Budget maintains the Department of Health within jurisdiction of the Executive Office of Health and Human Services and transfers the food and nutrition services to the Office by March 1, 2010 and client protective services by January 1, 2011.
- ***Global Waiver Savings.*** The Budget includes savings of \$30.1 million from all funds, \$14.3 million from general revenues from implementation of the global waiver. This includes reducing nursing home placements by expanding community options, expanding the use of shared living arrangements for adults with disabilities, selective contracting for outpatient services and specialized equipment, continuing to enroll adults in the managed care plans, and exploring options to treat medical assistance recipients in more appropriate settings than emergency rooms or through extended hospital stays.
- ***Medicaid - Costs Not Otherwise Matchable.*** The Budget includes statewide general revenue savings of \$7.7 million for FY 2009 and \$14.2 million for FY 2010 by shifting certain state funded expenses to Medicaid in the five health and human service departments. The state has received federal approval to match Medicaid funds for services provided through certain state funded programs, commonly referred to as costs not otherwise matchable.
- ***Hospital Payments.*** The Budget includes reimbursing community hospitals for the outpatient upper payment limit for FY 2009 totaling \$21.1 million and includes an FY 2010 payment totaling \$25.5 million. The Budget also includes \$3.65 million for the state only payment to acute care community hospitals in both FY 2009 and FY 2010.

- ***Hospital Reimbursement Rates.*** The Budget replaces the current hospital rate reimbursement system with a method utilizing diagnosis related groups, with payments to hospitals based upon diagnoses, procedures, and patient age. The Assembly assumed savings of \$2.5 million from all funds, and a March 30, 2010 start date.
- ***Nursing Facilities Reimbursements.*** The Budget includes savings of \$2.6 million from all funds, including \$1.8 million from general revenues from adopting an acuity-based rate setting system for nursing homes, replacing the current system, effective January 2010. The Assembly included legislation that requires that the Department of Human Services holds public hearings and submit a final implementation plan to both Chairmen of the House and Senate Finance Committees no later than December 1, 2009.
- ***RItE Care Co-Pay.*** The Budget lowers the RItE Care monthly cost sharing requirements to comply with provisions of the federal Stimulus Act. The Stimulus Act mandates that in order for states to receive the higher Medicaid match, a state cannot make any eligibility or other significant changes to its Medicaid program after July 1, 2008. The 2008 Assembly implemented new cost sharing requirements and increased existing payments, which were not implemented by that deadline. The Assembly added \$3.5 million, \$1.2 million from general revenues.
- ***Community Health Centers from Health.*** The Budget shifts \$1.2 million from the Department of Health's budget to the Department of Human Services' budget to support the state's 12 community health centers.
- ***Children's Health Benefits.*** The Budget provides Medicaid matched health care benefits to children who legally reside in the state, but are not citizens. Previously, they were provided state-only medical benefits which were eliminated by the 2006 Assembly. Recent federal changes allow states the option to provide the health coverage and receive a federal match.
- ***State Funded Coverage for Pregnant Women.*** The Assembly added \$235,000 to continue to provide state funded medical coverage to pregnant women with incomes between 250 percent and 350 percent of the federal poverty level. Recipients with annual income not exceeding \$37,905, pay a premium to the health plans and the state pays \$8,378 to the hospital for the delivery.
- ***RItE Care Dental Benefits for Parents.*** The Assembly added \$1.1 million to continue to provide dental benefits to approximately 38,000 RItE Care parents.
- ***Rhode Island Works.*** The Assembly established a July 1, 2008 effective date for the 24 month period a family is eligible to receive cash assistance within the 48 month lifetime limit. Previously, the Department was including any time prior to July 1, 2008 in its determination of the cash assistance recipient's 24 month eligibility.
- ***Supplemental Security Income Payments.*** The Assembly included legislation that provides the state supplement to the federal supplemental security income payment for those adults with developmental disabilities who receive residential services through the Department of Mental Health, Retardation and Hospitals' budget instead of the Department of Human Services' budget. Support for the individuals is unchanged, but the state will no longer have to pay the monthly transaction fee to the federal government to process the check.
- ***Head Start.*** The Budget includes \$0.8 million from general revenues for the state only portion of the Head Start program, which supports approximately 121 children enrolled in Head Start. This is

\$0.2 million less than recommended, an amount equal to the amount that Rhode Island Head Start agencies are scheduled to receive for 21 Head Start subsidies as part of the federal Stimulus Act.

- ***Health Information Exchange.*** The Capital Budget includes issuance of \$20.0 million from revenue bonds approved by the 2008 Assembly for the Health Information Exchange Network.
- ***Treatment and Accountability for Safer Communities Program.*** The Assembly maintained the program known as Treatment and Accountability for Safer Communities and its three positions. The program provides initial assessment, referral and case management services to individuals with a second drunk driving conviction as required by law.
- ***Eighteen to Twenty-One Year Olds.*** The Budget includes \$13.5 million for services provided to youths between the ages of 18 and 21 qualifying for child welfare services, including \$9.2 million from general revenues. General revenues are \$2.3 million more than the Governor recommended because the Department miscalculated which services are eligible for Medicaid reimbursement.
- ***Residential Placements.*** The Budget includes \$131.9 million from all sources, \$74.7 million from general revenues for residential placements in both the Child Welfare and the Behavioral Health programs of the Department of Children, Youth and Families. These services include residential placements for children in both in-state and out-of-state placements, as well as specialized foster care.

Education

- ***Public Higher Education.*** The Budget uses 50.0 percent or \$16.1 million of higher education's total three-year allocation in each FY 2010 and FY 2011 to make fire safety repairs in the institution's academic buildings. Based on the square foot need of each institution, the distribution is \$7.2 million for the University, \$5.7 million for the College and \$3.2 million for the Community College for FY 2010.
- ***Urban Education Task Force.*** The Budget adds \$0.8 million from general revenues to fund two initiatives recommended by the Urban Education Task Force. This includes \$0.7 million for a preschoolers' pilot program to increase school readiness and \$0.1 million for extended learning time in the urban districts.
- ***Statewide Transportation.*** The Budget includes \$50,000 from general revenues to begin implementation of a statewide transportation system for out-of-district special education students.
- ***School for the Deaf Fee-for-Service.*** The Budget includes general revenue savings of \$0.7 million from implementing a new fee-for-service system at the School for the Deaf. Local districts will be billed for special education services that are not part of the school's core mission.
- ***Need Based Grants and Scholarships.*** The Budget funds need based grants and scholarships at \$12.1 million including the enacted level of \$6.4 million from general revenues.
- ***Surrogate Parent Program Restoration.*** The Budget includes \$97,156 from general revenues to support the educational surrogate parent program. The educational surrogate parent program provides school aged children with an educational advocate to make decisions concerning special education and is provided through a multi-year contract with the Sherlock Center at Rhode Island College. Funding

of the contract is a blend of state and federal funds including \$322,000 from federal special education funds and \$97,156 from state funds.

- ***Civics Education.*** The Budget includes \$61,000 from general revenues for civics education. The Governor had proposed saving \$72,000 by eliminating the civics education program. The Department has collaborated with community partners to develop and promulgate civics standards for students in kindergarten through grade 12. This funding is used to support a consultant that oversees and implements this program.

Public Safety

- ***RIBCO Future Settlements.*** The Budget includes \$7.3 million from general revenues for estimated prospective costs for settling the labor contract with the Rhode Island Brotherhood of Correctional Officers for FY 2007 through FY 2010. This assumes wage increases for each year consistent with other state employee unions but does not include funding for potential retroactive payments for FY 2007 through FY 2009.
- ***Prison Population.*** The Budget assumes an average inmate population of 3,767, which is 241 fewer than assumed in the Governor's recommendation. His recommended population was based on projections prepared in the fall of 2008. However, recent population reports from the Department show downward trends in prison population. The Budget includes a reduction of \$5.0 million to reflect savings associated with this reduction.
- ***Correctional Officer Training Class.*** The Budget includes funding for one correctional officer training class, beginning in October 2009, with the graduation of 60 officers in January 2010.
- ***Indigent Defense Program.*** The Budget includes \$3.4 million from general revenues for the Judiciary's indigent defense services program. This is \$300,000 more than enacted, but in line with historical spending.
- ***New Troopers.*** The Budget adds 35.0 new full-time equivalent positions to reflect the 35 troopers of the 53rd Training Academy class slated to begin in June 2009. On November 13, 2009, the troopers will enter into a field training program for 72 working days.
- ***Trooper Recruitment.*** The Budget includes \$64,560 to begin recruitment in June 2010 for the 54th trooper training academy class to start in March 2011.
- ***State Police Vehicles.*** The Budget does not include any funding for State Police fleet replacement needs in FY 2010.
- ***Public Safety Grant Awards.*** The Budget does not include any additional funding for state justice program grants from the Stimulus Act for which there has not been sufficient review of the proposed uses.
- ***Military Funerals.*** The Budget includes \$82,750 from general revenues to fund stipends for retirees to serve as the fourth member of honor guards at military funerals for Rhode Island veterans. The federal government now only pays for three members; it had previously paid for up to seven members.

Environment

- ***Underground Storage Tank Fund Transfer.*** The Budget includes the transfer of one-half of the one cent per gallon motor fuel tax currently designated for the Underground Storage Tank Fund to the Rhode Island Public Transit Authority. This results in an additional \$2.2 million for the Authority, while receipts for the Underground Storage Tank Fund are decreased by the same amount.
- ***Permitting Staff.*** The Budget includes funding for an additional 8.0 full-time equivalent positions for the Department of Environmental Management to accommodate the expected increase in permitting requests for construction projects related to the American Recovery and Reinvestment Act.
- ***Coastal and Estuary Habitat Restoration Program and Trust Fund.*** The Budget includes \$250,000 from restricted receipts for the Coastal Resources Management Council's Coastal and Estuary Habitat Restoration Program and Trust Fund for projects that restore degraded habitats along the state's coastal and estuarine environments.
- ***Bays, Rivers and Watersheds.*** The Budget includes \$250,000 from the Oil Spill Prevention, Administration and Response Fund for the Bays, Rivers and Watersheds Coordination Team. The Team is responsible for coordinating the efforts of all of the environmental agencies in the state to restore and develop both freshwater and marine waters and watersheds.
- ***Statewide Emergency Water Interconnect Study.*** The Capital Budget includes \$1.0 million for FY 2010 from previously approved general obligation bonds to establish statewide emergency water interconnections between the state's 30 largest water supply systems.
- ***Groundwater Protection/Acquisition Program.*** The Capital Budget includes \$2.8 million for FY 2010 from previously authorized general obligation bonds to purchase water development rights from private landowners for well sites identified as high capacity.
- ***Bristol County Water Treatment.*** The Capital Budget includes \$15.6 million from authorized general obligation bonds for facilities upgrades including the Shad Factory Pipeline to ensure adequate water for the Authority's water users and maintain Rhode Island rights to water from the connected Massachusetts reservoirs.
- ***Fort Adams Rehabilitation.*** The five-year capital plan includes \$1.6 million from Rhode Island Capital Plan funds for rehabilitation projects at Fort Adams state park in Newport. Projects include the rehabilitation of the historic soldier's quarters as well as the restoration of the prison area.
- ***Pier Upgrades.*** The Budget includes \$4.3 million from Rhode Island Capital Plan funds through FY 2013 for repairs to the state's piers in Galilee and Newport. Funding is used for replacement of bulkheads and the surrounding structures as well as repairs to the walkways and decks.
- ***Recreational Facilities Improvements.*** The Budget includes \$8.2 million from Rhode Island Capital Plan funds from FY 2010 through FY 2014 for repairs to the state's recreational facilities. Improvements include the maintenance and upkeep of existing facilities as well as construction projects such as new bathroom facilities, roof replacements and roadway repairs.
- ***Resource Recovery Corporation Debt Approval.*** The Budget removes the Corporation's exemption from the Public Corporation Debt Management Act. Beginning in FY 2010, the Corporation must obtain Assembly approval before issuing additional debt.

- ***Water Resources Board Corporate.*** The 2009 Assembly transferred the Water Resources Board Corporate into the Clean Water Finance Agency. The transfer will become effective once the debt of the Board Corporate is paid off, which is projected to be in 2014. The Board Corporate is the funding component for the state's Water Resources Board. Due to the capacity and capabilities of the Agency, it will absorb the functions of the Board Corporate to allow for more efficient and cost effective lending for water infrastructure projects.

Transportation

- ***Rhode Island Public Transit Authority.*** The FY 2009 Budget included the permanent transfer of one half of the one cent environmental regulatory fee from the Underground Storage Tank Fund, which provided the Authority with an additional \$2.2 million for FY 2010. The FY 2010 Budget dedicated the additional two cents from the motor fuel tax increase to the Authority, which combined with an updated deficit projection, results in an estimated deficit of \$0.4 million for FY 2010.
- ***Rhode Island Turnpike and Bridge Authority Revenue Bonds.*** The Budget includes an authorization for the Rhode Island Turnpike and Bridge Authority to issue \$50.0 million of revenue bonds for steel repair and corrosion protection paint projects on the Newport Pell and Mount Hope bridges. The bonds would be secured by toll revenue; the Authority indicates this will require a toll increase of unstated size. The Authority anticipates the bonds would be non-taxable at a rate of 7.0 percent with a 30-year term with \$4.0 million annual debt service payments.
- ***Gas Tax.*** The Budget retains one cent of the 32 cent per gallon motor fuel tax previously designated for the General Fund within the Intermodal Surface Transportation Fund. The Department of Transportation's FY 2010 budget will increase by \$4,400,000 and general revenues will decrease by the same amount.
- ***Seatbelt Usage.*** The Budget does not include the proposal that the state change lack of seatbelt usage from a secondary offense to a primary offense, and lower the fine for lack of usage from \$85 to \$30.
- ***South County Commuter Rail.*** The Budget includes the authorization for the Rhode Island Public Rail Corporation to fully indemnify AMTRAK in order for the state to use its tracks to extend commuter rail service south of Providence.
- ***Stimulus Funds.*** The Budget includes \$97.4 million in stimulus funds for transportation projects of which \$97.1 million will be used for highway, road and bridge projects, and \$0.3 million will be used for fixed guideway infrastructure improvements.

